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CIA/RR LP-576

Communist Chinese-Latin American Trade
and Trade Negotiations

ORR Project No. 42.2030

9 December 1957

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COMMUNIST CHINESE-LATIN AMERICAN TRADE AND TRADE NEGOTIATIONS

It is the purpose of this paper to discuss the commercial and financial negotiations that have been conducted between Communist China and various Latin American countries over the last several years. This should furnish some guide to the countries, products, and agreement terms that may be involved in future negotiations. To date, the principal countries with whom Communist China has attempted trade negotiations have been Uruguay, Argentina, Brazil, and Chile.

ARGENTINA

A small amount of trade has taken place during the past few years between Argentina and Communist China. During the period 1954-56 Argentina shipped a total of \$8.0 million to China, including \$7.1 million in quebracho extract and \$893,000 in wheat. 1/

In the course of various trade negotiations that have taken place between the two countries since 1952, the Chinese have expressed a continued interest in buying not only quebracho and grain but also wool, hides, oilseeds, cotton, and leather. China offered to sell silk, glass, menthol, certain chemical products, tea, hemp manufactures, paper, paper products and newsprint, resin, machinery, light metal manufactures, antimony, bauxite, aluminum, jute, and tobacco. 2/ In October of this year, the Argentine trade and industry ministry announced that Communist China had offered to sell any amount of coal desired at an f.o.b. price lower than in all other international markets. 3/

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Little information is available on offers made by the Chinese trade delegation that visited Argentina during the Summer and early Fall of 1957, or on the type of trade or payments agreement which they tried to negotiate.

Argentina's deteriorating economic situation may make these trade offers increasingly attractive. The persistent deficits in her balance of payments have reduced her dollar and gold reserves and increased her international indebtedness to a serious extent. 4/ Under these conditions the possibility of developing new markets and sources of supply in China may offer a means of correcting her balance of payments disequilibrium. However, her balance of payments difficulties have been caused in part by a decline in agricultural production for export since 1955 and this may mean that any increase in exports to China would be at the expense of exports to hard currency areas. Such a development would tend to limit the advantage of increased trade with China.

URUGUAY

Trade between Uruguay and Communist China, as reported by official trade statistics, has been of no consequence. However, indirect trade in wool tops, probably transhipped through the Netherlands, has reportedly totaled more than \$6 million. 5/

Wool and wool products are Uruguay's chief exports, constituting from 40 to 50 percent of the total. As wool is one of China's principal imports, her offers to purchase have been concentrated on this product. However, the proposed payments agreement of 1956

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contained an illustrative list of goods which Uruguay might export in addition to wool. The list included flour, linseed oil, and tanned hides. 6/

China has offered a list of exports to Uruguay that includes jute, bristles, steel, coal, caustic soda, bauxite, chemicals and pharmaceutical products, newsprint, silk, and machinery of various sorts. 7/ A member of Uruguay's Foreign Office, commenting on this list in September 1956, stated that the only product that Uruguay would be greatly interested in was caustic soda. He also expressed interest in acquiring iron for construction purposes. This was not included on the list, but is nevertheless a product which China is capable of exporting within limits. 8/

BRAZIL

Up to the present, Brazilian trade with Communist China has been of little importance. During the period 1954-1956, China purchased a total of \$7.7 million in Brazilian raw cotton. Sales of raw cotton to China during 1957 have evidently not been large, but approximately \$1.0 million worth of sugar was sold to China in June. 9/

Besides the products mentioned above, Chinese spokesmen have expressed interest in Brazilian coffee, tobacco, timber, and rice. 10/ They have indicated that China could export in return a list of goods including coal, antimony, paper, silk, and tea. 11/

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Brazil would not offer a good market for Chinese cotton piece goods, cotton knitted wear, hardware and other light industry products as Brazil's own industrial development was in this direction, but that Brazil would purchase machinery, metal products, and chemicals, especially caustic soda. 12/

To date, Brazil has shown little interest in trade with Communist China. However, the drop in coffee prices and the decline in coffee exports which Brazil has experienced during the last year has caused a severe balance of payments problem and has lead to an increasing Brazilian interest in trade with the Communist Bloc. If Brazil's international position does not improve and if coffee surpluses continue to accumulate, as they have for the past year, trade with the Bloc will become increasingly attractive to Brazil.

CHILE

As in the case of the other Latin American countries, Chile has had very little trade with Communist China in the past few years. During the 1952-1957 period imports averaged less than \$1 million and exports have been virtually non-existent. 13/ The Chilean firm, Diaz y Cia, has reportedly imported a variety of manufactured goods from China, including electrical equipment, chinaware, cutlery, refrigerators, and novelties. 14/ China has shown some interest, in the past several years, in Chilean nitrates and has made offers to the Chilean Nitrate and Iodine Sales Corp. However, these offers have not resulted in any sales. 15/

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In addition to nitrates, Chinese trade representatives have expressed interest in virgin copper, copper wire, and wool. 16/ In exchange for these products, China has offered cotton, salt, tea, coal, edible oil, antimony, beans (probably soybeans), corn, and raw silk, textile machinery, electric motors, and chemical products. 17/

China's need for raw and semi-finished cotton indicated that Mexico and Peru may find trade opportunities in Communist China. Cotton is one of Peru's leading exports, but Peru is a relatively unimportant source of this commodity compared with Brazil and Mexico. In 1956 Communist China trade interests put on a campaign to draw Mexico into the export of cotton to China. This drive was aided by the large cotton surpluses which Mexico developed during that year. 18/ As a result of this effort, a \$1.5 million sale of cotton was made to China. Both Peru and Mexico produce and export important quantities of sugar. Since sugar is one of China's more important imports, it is possible that she may try to open negotiations with these two countries for an agreement that would facilitate its purchase.

Trade in sugar might also bring Cuba into future negotiations. During the last few years, Cuba has sold substantial amounts of sugar to the USSR and presumably would be willing to sell to Communist China as well.

Latin American countries have so far been willing to offer only inter-bank payments arrangements to China. In 1956, Brazil offered a

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clearing agreement by which Brazil would import from China only to the extent that China had imported from Brazil. Brazil was not willing to guarantee that traders would import to the extent necessary to balance trade and China would have to meet any outstanding debt at the conclusion of the agreement period in sterling. 19/ This agreement was never put into effect.

In the case of Uruguay, a clearing agreement was negotiated in 1956 but never ratified. Like the Brazilian agreement, it called for the use of sterling as the unit of account. Trade was to be closely balanced. The People's Bank of China would open irrevocable letters of credit for specified amounts during the period the agreement was in force and the Uruguayan Bank of the Republic correspondingly would undertake periodically to distribute quotas for similar specified amounts. The process was to continue until the maximum trade limit set by the agreement was reached. Exchange earned by one party could be used only to import from the other. Trade had to be continued until a balance was reached. 20/ This agreement was probably not consummated because of Uruguay's then general disinterest in trade with Communist China and because of her desire to break away from bilateral trade arrangements in favor of greater multilateralism. 21/ In general, China's desire for bilateral agreements and Brazil and Uruguay's desire for multilateral arrangements have been one of the stumbling stones to fruitful negotiations between these countries.

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In the case of Chile, China has indicated a willingness to pay for imports of copper with either dollars, sterling, or Swiss francs. 22/

Very little information is available on the terms of the agreements that the Chinese trade delegations attempted to negotiate during its 1957 visit to South America.

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Approved For Release 2002/09/04 : CIA-RDP79T01049A001700460002-1

Approved For Release 2002/09/04 : CIA-RDP79T01049A001700460002-1

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20 November 1957

MEMORANDUM FOR: Assistant Director for Research and Reports

SUBJECT : Trade Between Communist China and Latin America

REFERENCE :

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1. As discussed by [REDACTED] of your office and [REDACTED] it is requested that a study of certain aspects of trade between Communist China and various Latin American countries be prepared. It is our understanding that such a study can be completed by early December.

2. Any questions pertaining to this request may be referred to [REDACTED]

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